



Michigan Nonprofit Association

**Testimony of Kyle Caldwell
President and CEO
Michigan Nonprofit Association
Before the
Michigan Senate Finance Committee**

Senate Bill 1337

Clarification of Exemption for the Sale of Personal Property to a Nonprofit

The Honorable, Senator Jack Brandenburg
Chairman, Senate Finance Committee
Michigan Senate

Dear Chairman Brandenburg,

On behalf of the Michigan Nonprofit Association (MNA) and the more than 47,000 nonprofits in Michigan, I would like to thank you for holding this hearing and for Senator Jansen, a leader in the Michigan Nonprofit Caucus, for sponsoring Senate Bill 1337.

Michigan Nonprofit Association's Position

MNA supports Senate Bill 1337 as it provides clarity and certainty in the tax code for charitable organizations while instituting prudent safeguards for the integrity of fundraising activities that are vital to fulfilling the mission of our state's nonprofits.

Testimony in Support of Senate Bill 1337

MNA supports amending the General Sales Tax Act to make clear and explicit that personal property purchased by certain nonprofit organizations is not subject to sales tax. The need for this legislation arose following an interpretation by the Michigan Department of Treasury that the present General Sales Tax Act does not necessarily exempt from sales tax goods that will be used for a nonprofit's fundraising purposes. Because fundraising is a vital and notable function for the nonprofit sector to accomplish vital charitable and social missions, Senate Bill 1337 represents a defining moment for the Michigan Legislature.

Fundraising activities are even more necessary today than in the past in the face of increasing pressures on nonprofits to do more with less. The restructuring of many of the state's community services from the public sector to the more efficient nonprofit sector with fewer public resources, means that nonprofits must find other revenues to maintain their missions. From 2007 to 2010, Michigan charities saw a 5% decline in giving from individuals (Michigan Nonprofit Association, 2011). In addition, Michigan is #8 in the state rankings for not paying the full costs for services provided by nonprofits (Elizabeth Boris, 2012). In 2012, Michigan repealed the Michigan Charitable Tax Credit (MCTC) that provided leverage to individuals and families who wanted to give to nonprofits. In 2011, just as the Legislature was threatening to



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repeal MCTC, giving by individuals spiked upward, likely to take advantage of the expiring charitable incentive (Michigan Nonprofit Association, 2011). Given these pressures, nonprofits can ill afford a tax on the very activity they need to expand during these economically challenging times—fundraising. Nonprofit organizations and charities MNA represents do not define themselves by their ability to fundraise, but in their ability to add support and value to the lives of the constituents and clients that they serve.

There may be concerns about the financial impact of this legislation on the state budget. MNA understands the concern but feels that it may be misplaced. First, it is unclear as to whether the current interpretation is being fully enforced. Second, the nonprofit sector has been an economic engine for the state having been the only growing sector during the height of the recent recession and with a growing asset base. (Michigan Nonprofit Association, May, 2012). It is counter-intuitive to further the tax burden on nonprofit organizations while they provide vital services government cannot provide by itself, and serve as a job-creating asset building industry for the state.

Still others may be concerned about the “bad actors” that might use the tax code and the tax exempt status of a nonprofit organization to provide themselves with a personal benefit. MNA supports the protections and safeguards that would be enshrined in state law through this legislation’s cap on the value of property and vehicles used to raise funds or obtain resources for nonprofits.

Senate Bill 1337 is a vital clarification and reaffirmation of the exemption status of nonprofits and other charitable organizations. The bill promotes the missions of nonprofits by ensuring that funds are going towards those missions.

The Michigan Nonprofit Association strongly urges the members of the Senate Finance Committee to support Senate Bill 1337 being reported with recommendation and your fellow Senate colleagues’ passage of the bill by the entire body.

Respectfully,

Kyle Caldwell
President & CEO
Michigan Nonprofit Association



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Reference Material

Snapshot on Giving & Volunteering in Michigan 2011, Michigan Nonprofit Association
<http://www.mnaonline.org/CMDocs/MNA/GivingandVolunteering%202012.pdf>

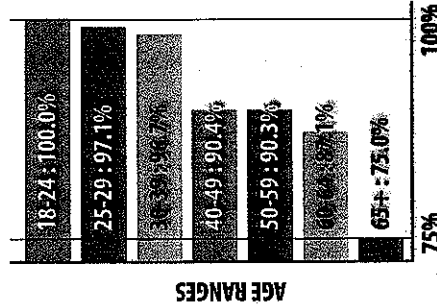
Contracts and Grants between Human Service Nonprofits and Governments, October, 2010,
Urban Institute's Center on Nonprofits and Philanthropy.
<http://www.govtcontracting.org/sites/default/files/Brief.pdf>

Michigan's Nonprofit Sector Through the Recession, Michigan Nonprofit Association, May,
2012, Public Sector Consultants
http://nonprofit.pscinc.com/MNA%20Recession%20Update_2010.pdf

Volunteering in Michigan

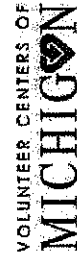
Participants in the survey were asked about their volunteering levels and habits, allowing the study to assess involvement rates for different demographics. More than 90% (90.3) of individuals volunteered either formally or informally in 2011. These numbers indicate an increase in the number of Michigan citizens volunteering as compared to last year (85.7% in 2010).

- Gender:** Women were more likely to volunteer (91.8%) than men (88.5%) in 2011. In 2010, 91.6% of women volunteered and 79.4% of men.
- Education:** 68.4% of people with less than a high school diploma volunteered, 85.9% of high school graduates, 91.6% of those with some college, and 94.7% of college graduates volunteered.
- Age:** In 2011, there was a marked increase in the levels of volunteering for each age range, particularly in the younger age groups. Those 18-24 years volunteered at a rate of 100%, 25-29 years at 97.1%, 30-39 years at 96.7%, 40-49 years at 90.4%, 50-59 years at 90.3%, 60-64 years at 87.1%, 65+ years volunteered at 75%. See graph for more details.
- Income:** In 2011, it is notable that individuals within the \$100,000+ income bracket volunteered at a higher level than those with lower incomes. Those making less than \$30,000 per year volunteered at a rate of 83.1%, \$30,001-99,999 at a rate of 92.9% and those making over \$100,000 volunteered at a rate of 95.2%.



For the most up-to-date information and research regarding the Michigan nonprofit community, visit the Michigan Nonprofit Association's website at www.MNAonline.org.

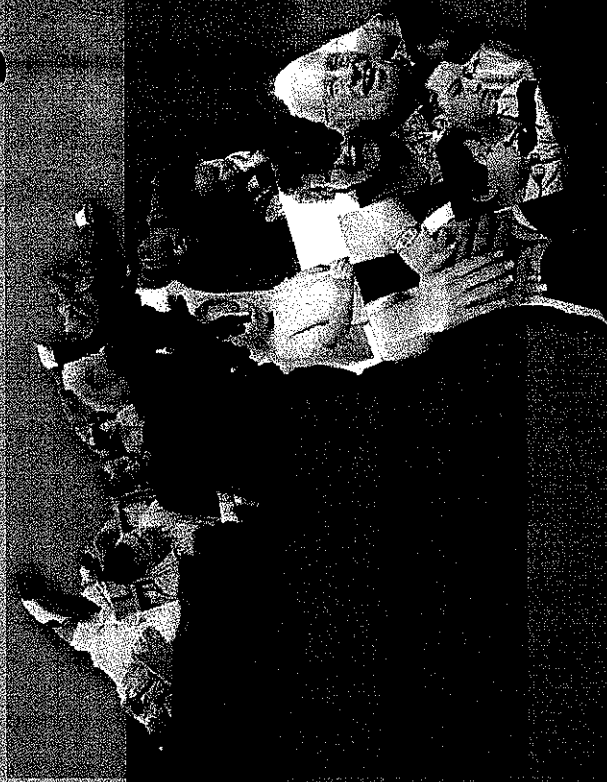
Survey supported by



Michigan Nonprofit Association is affiliated with Michigan Campus Compact and Volunteer Centers of Michigan and supported by the General Michigan Alliance Endowment.

Snapshot on

Giving & Volunteering in Michigan



Highlights from a 2011 survey of Michigan residents

Introduction

Michigan's nonprofit sector is comprised of more than 47,000 organizations, of which, more than 31,400 are charities (NCCS 2010). One in ten Michiganders works for a nonprofit, making nonprofits the fourth largest sector in the state.

Giving and volunteering are essential to Michigan charities, allowing them to successfully serve local residents and to fulfill their philanthropic missions. Nationally, charitable giving was approximately \$303.75 billion in 2010 (Giving USA 2010). Without the support of individuals, through both donations and volunteering, charities would have a difficult time keeping their doors open, especially since Michigan's troubled economy has resulted in an increase in need for charitable services. As this demand continues to grow, the need for giving and volunteering will grow as well.

In early 2012, a random study conducted by the Institute for Public Policy and Social Research at Michigan State University surveyed 518 Michigan residents about their experiences with charitable giving and volunteering in 2011. The survey was part of the quarterly State of the State Survey (SOSS) series, monitoring the public mood on important issues in major regions of the state.

The goal of this survey is to gauge the involvement of individuals in charitable giving and volunteering as well as to understand their perception of the nonprofit sector. In the past, we have seen a correlation between participation with nonprofit organizations and positive perception of the sector. This trend has continued, highlighting the importance of trust and confidence in organizations as it relates to an individual's decision to support a charity. Results from the survey can be found in this report.

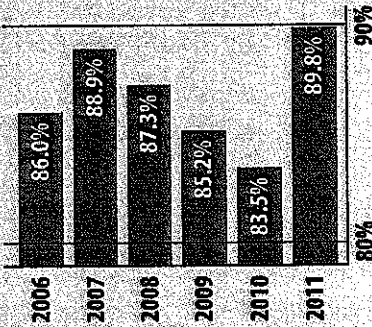
Trust in Michigan's Charities

This study measured public perceptions of the necessity, legitimacy, and efficiency of charitable organizations. The survey asked a series of questions to understand how Michigan residents feel about charitable organizations. Overall, respondents see Michigan's charitable sector as valued and trusted.

- **Need for charities:** Over 96% (96.2) of Michigan residents feel the need for charitable organizations is greater than in the past. More than 73% strongly agreed, whereas only 1.2% strongly disagreed.
- **Honest and ethical:** More than 82% of residents agreed that charities are honest and ethical. Responses ranged from 34.5% strongly agreeing, 47.6% agreeing, and only 3.2% strongly disagreed.
- **Effectiveness:** Nearly 84% (83.7) of residents believe charities are effective at providing services. Nearly 38% strongly agreed (38.1%) and 45.7% agreed, whereas only 4.1% strongly disagreed.
- **Quality of life:** Charities are also seen as important to the quality of life within a community, with 94.5% of respondents agreeing. Nearly 58% (57.7) strongly agreed, whereas only 2.5% strongly disagreed.
- **Tax-exempt status:** 91% of residents believe charities should continue to be exempt from paying certain taxes.

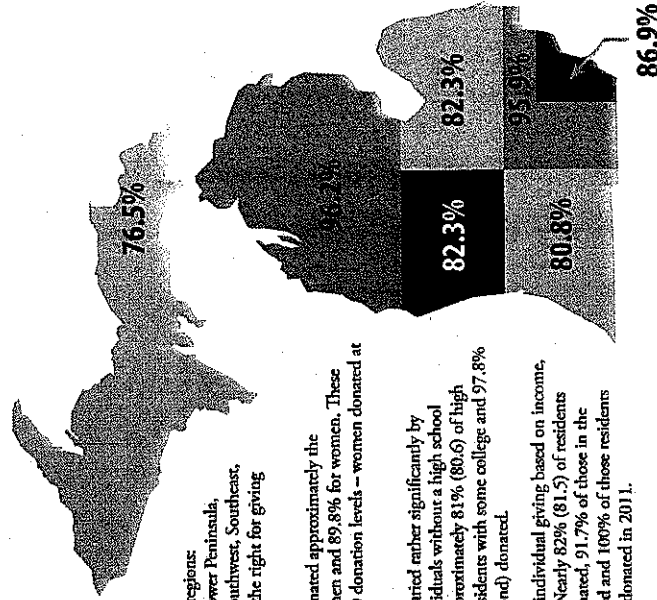
These findings represent an ongoing trend that Michigan residents see charities as an important part of the community providing quality services in an honest and effective way.

Giving in Michigan



The study examined the rates at which Michigan residents donated and the demographics of the giving populations. Despite Michigan's economic recession, more than 89% (89.8) of individuals donated to a charity in 2011.

Giving Rates by Region

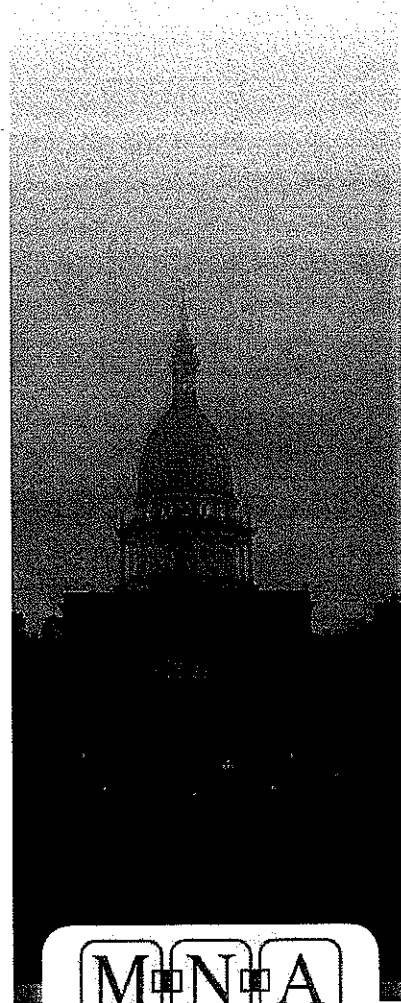


Giving rates by various demographics:

- **Region:** Giving rates varied across the state, and were broken out by seven different regions: Upper Peninsula, Northern Lower Peninsula, West Central, East Central, Southwest, Southeast, and Detroit. See the graph to the right for giving percentages by region.
- **Gender:** Women and men donated approximately the same proportion: 91.1% for men and 89.8% for women. These numbers are higher than 2010 donation levels – women donated at 86.2% and men at 80.3%.
- **Education:** Donation levels varied either significantly by education level. 75% of individuals without a high school diploma donated, whereas approximately 81% (80.6) of high school graduates, 88.2% of residents with some college and 97.8% of college graduates (and beyond) donated.
- **Income:** The study looked at individual giving based on income, broken into three categories. Nearly 82% (81.5) of residents making less than \$30,000 donated, 91.7% of those in the \$30,000-99,999 range donated and 100% of those residents making more than \$100,000 donated in 2011.

Michigan's Nonprofit Sector Through the Recession

May 2010



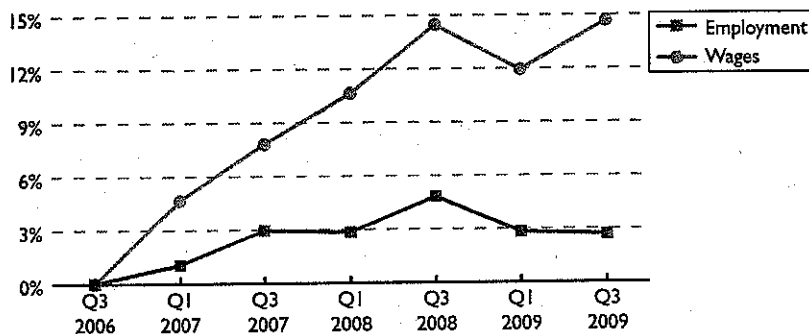
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Over the past three years, the “Great Recession” has severely affected nearly every one of Michigan’s major industries, driving the state’s unemployment up and overall wages down. As a result, nonprofits statewide have reported increased demand for their services while at the same time they have been forced to seek new and innovative financial lifeblood. Nonetheless, as a whole, the nonprofit sector provides an economic glimmer of hope for the state as this sector’s employment and wages, two key economic indicators, have remained resilient through the recession.¹

In 2008, the Michigan Nonprofit Association took an in-depth look at the nonprofit sector through the *Economic Benefits of Michigan’s Nonprofit Sector* report. This document is a follow-up to determine how the nonprofit organizations last studied in 2008 have fared from third quarter 2006 to third quarter 2009. In short, those nonprofit organizations (including the sub-sectors of public charities, private foundations, and noncharitable nonprofit organizations) added nearly 11,500 jobs, or 2.69 percent, between the third quarter of 2006 and the third quarter of 2009. Total employment in the sector stood at nearly 440,000 in September 2009.² Wages increased by 14.7 percent over the same three-year period (see Exhibit 1). Information on nonprofit assets, the third economic indicator studied in previous reports, is not available at this time, but we surmise that assets experienced the same market-driven dip as seen in other sectors.

EXHIBIT I

Change in Michigan Nonprofit Wages and Employment, Q3 2006–2009



SOURCE: Data prepared by Michigan Office of Labor Market Information and analyzed by Public Sector Consultants, 2010.

The relatively good performance of the nonprofit sector can likely be explained by the counter-cyclical nature of demand for social services during economic downturns. Further, the sector’s wage growth might

¹ Recessions are defined by the National Bureau of Economic Research. For the purpose of this publication, we have focused on the period beginning with the third quarter of 2006, one year before the official start of the current recession, through the third quarter of 2009, when many economic indicators had shown signs of recovery.

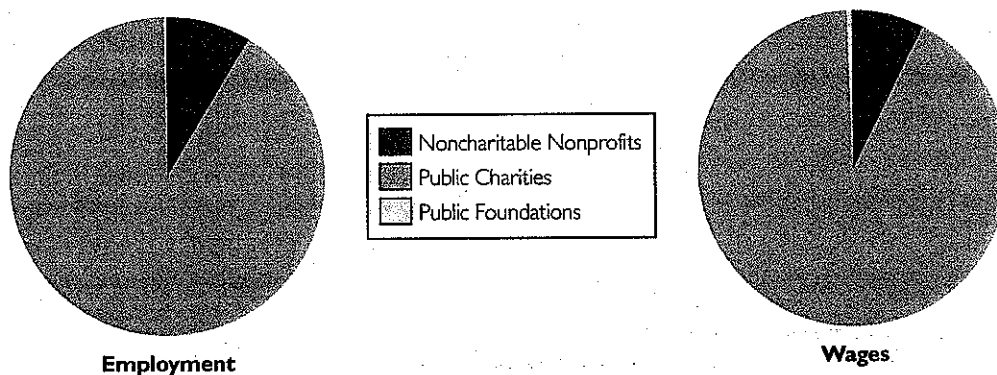
² First quarter 2010 data was not yet available before the publication of this report.

reflect the continued professionalization of nonprofit sector employees and increased productivity, in terms of served clients. Acknowledging that total employment grew only slightly, we hypothesize that employers expanded the role of current employees, asking them to do more without necessarily adding more staff. Nonprofits are likely putting forth extra efforts to retain good talent.

Through the recession, the distribution of employment across the nonprofit sub-sectors has not changed. Nonprofit charities account for the large majority of employees, while foundations continue to represent only a small slice of the pie. Wages are distributed in a similar manner across the sector (see Exhibit 2). Exhibit 3 further shows the breakdown of the entire sector according to service area.

EXHIBIT 2

Distribution of Employment and Wages Across the Nonprofit Sector



SOURCE: Data prepared by Michigan Office of Labor Market Information and analyzed by Public Sector Consultants, 2010.

EXHIBIT 3

Summary of Employment by Nonprofit Service Area, Q3 2006–2009

	2006 (3Q)	2009 (3Q)
Arts, Culture and Humanities	6,714	6,420
Education	58,413	58,613
Environment	2,849	3,020
Health	220,441	231,206
Human Services	92,327	93,598
International	637	673
Mutual Benefit	4,289	3,974
Public and Societal Benefit	18,609	19,873
Religion	17,478	17,419
Unknown	4,355	2,772
Total	426,112	437,568
State Non-farm Employment	4,709,049	4,181,236
Nonprofit Employment as a Percentage of State Employment	9.05%	10.47%

SOURCE: Data prepared by Michigan Office of Labor Market Information and analyzed by Public Sector Consultants, 2010.

Additional information is available
on the MNA website at
www.mnaonline.org.

Prepared by Public Sector Consultants Inc.
www.pscinc.com